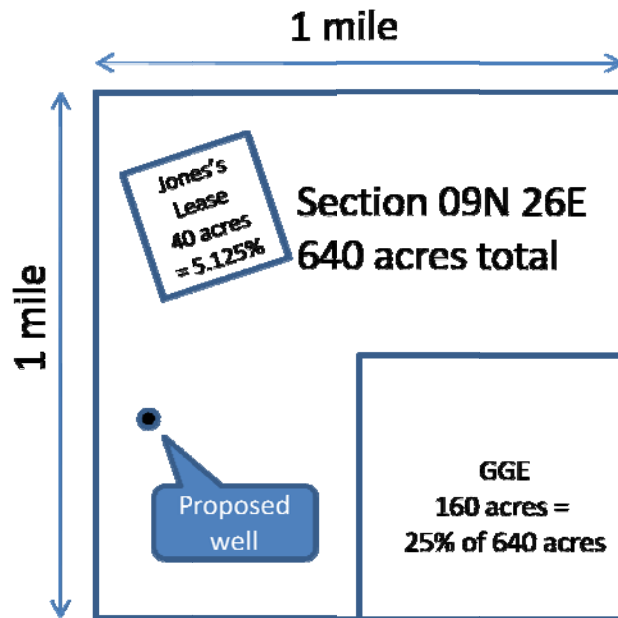


Force Pooling

Like a lot of areas of the US, Oklahoma is divided into counties and each county is divided into 'townships'. Each township is an area of six miles by six miles and each square mile is a section.

In Oklahoma each 'section' (1 sq mile = 640 acres) is subject to 'force pooling'. This is a system of unitization whereby once a well is proposed (by any lease or fee minerals owner) in a section all mineral lease holders or fee minerals owners have the right to participate in the well and any associated income. They have a duty to make an election to participate in a well within 30 days of the proposal to drill the well.



This is best explained by an example: A lease holder ('Jones'), in Section 09N 26E in LeFlore County who has a lease over 40 acres proposes a well in the particular section of which the 40 acres is part. The well can be proposed anywhere in the section, not just in the lease holder's acreage.

All lease owners in the section have 30 days to decide whether to contribute towards the drilling of the well. If Grand Gulf Energy holds fee minerals of 160 acres anywhere in that section it may participate with a 25% working interest and have a 25% revenue

interest (as it does not have to pay anyone a royalty). Lease holders, such as Jones would pay a royalty of 25% and therefore would only have a 75% Net Revenue Interest (N.R.I.). Leaseholders who participate in the well would pay a 25% royalty to the Fee Minerals owner and therefore would only receive 75% of the revenue from the well. Usually the lease holder with the largest interest operates the drilling of the well.



Section	Initial Acreage	Initial % of well cost	Participates	Final % of well cost	N.R.I	% Revenue Interest
GGE	160	25.00%	Yes	25.00%	100%	25.00%
GGE Lease	0	0.00%	Yes	15.00%	75%	11.25%
Others	440	68.75%	Yes, Part	53.75%	75%	40.31%
Jones	40	6.25%	Yes	6.25%	75%	4.69%

Importantly, force pooling enables the drilling of wells and any associated production to take place quickly using well understood and tested processes.

As might be expected, the force pooling regime can be varied to marry the pooling area to a known field.

Please see below for further information on Force Pooling in Oklahoma. The following provides some general information on pooling. Also, the Oklahoma Corporation Commission (OCC) has a website that may be beneficial to you (<http://www.occeweb.com/>). The OCC's oil and gas rules (Chapter 5 and 10) can be obtained at www.occeweb.com/Divisions/GC/Rulesfrm.htm.

What is a Pooling Order and when is it necessary?

After the drilling and spacing order determines the boundaries of the unit and the reservoirs involved, any person or company owning the right to drill a well within the unit may propose the drilling of a well. After the oil company has proposed the well, the company will try to reach agreement with all the other owners within the unit (do they want to lease to the company who wants to drill, or do they want to join in sharing the cost of drilling the well and thereby own a working interest in the well?).

If the oil company cannot successfully get all the owners within the unit to agree as to how to develop the unit, the oil company can apply to the Commission to have those people or other oil companies who have not agreed, force pooled into the unit. "Force" pooling means that under Oklahoma law the oil company can force those who are undecided to make a decision.

Fair market value:

At the pooling hearing evidence will be taken to establish what prices have been paid for leases within the subject unit and the eight offsetting units. The nine-unit area is the area the Commission usually considers in determining the value of leases. The Commission wants to find the best evidence of the fair market value of the land involved. Often the best evidence is the highest amount, but sometimes the best evidence is not the highest amount. Each case must be judged on the individual facts presented.

Cash bonus elections under the Pooling Order:

After the pooling order is issued, all of the parties will have a certain number of days to choose or elect which financial options they wish to make. The pooling election must be made in writing within the allotted time. If a royalty owner chooses to take the cash bonus and royalty percentage that goes with it, the order will state how



many days the oil company has to pay the cash bonus. The cash bonus must be paid to those who elect it even if the well is never drilled or if drilled and is a dry hole.

If the oil company does not properly pay the cash bonus, the pooler that is unpaid must sue in District Court to obtain the money. The Commission has no jurisdiction or authority to force the company to pay the cash bonus.

Elections to participate in the drilling of the well under the Pooling Order:

Anyone electing to participate and join in the costs of drilling the well will be given a certain number of days to submit their share of the drilling costs or to make satisfactory financial arrangements for payment. The pooling election must be made in writing within the allotted time. Letters of credit are often accepted rather than cash payment up front, but the arrangements are different for each situation and parties involved depending on their financial position and experience in the oil business.

Deemed elections:

If you fail to make a timely election under the pooling order, the order will provide that you are deemed to have made a certain election. Normally, if a party fails to elect or elects out of time, the order will provide that he is deemed to have elected the cash bonus and royalty.

If any person elects to participate, but fails to submit his share of the drilling costs or make timely financial arrangements with the oil company, the pooling order will also state that party's election is rescinded or voided and the party usually will be deemed to have taken the cash bonus.

Leasing under a Pooling Order:

Any person who is listed as a party in a pooling application and order may still lease to anyone until the election period listed in the pooling order has run. It is usually 15 days, but can vary in each order depending upon the facts in that case.

Term of Pooling Order:

A pooling order usually, but not always, provides a maximum of 180 days to commence a well. If the operator of the well does not commence operations within 180 days, the pooling order is void. It is not mandatory that the well be drilled at all, however, cash bonuses are due to those electing the cash regardless of whether a well is drilled or not. In some cases, the Commission may grant an extension of time under the pooling order, however, the applicant is sometimes required to pay some percentage of the original cash bonus again, but usually there is no new election.